Commodity Futures Trading Commission
Via comments.cftc.gov

Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Dear Mr. Kirkpatrick:

Re: Prediction Markets RIN 3038-AF65 (the "Request")

Animoca Brands is pleased to comment on the questions raised by the Commodity Futures Trading Commission (the "**Commission**") in the Request. As an organization actively engaged in the development of blockchain-based platforms and digital asset ecosystems, we have a strong interest in the evolution of clear, innovation-supportive regulatory frameworks for emerging market structures, including prediction markets.

Prediction markets represent a rapidly developing category of financial and informational tools that can enhance price discovery, aggregate dispersed information, and support risk management across a wide range of use cases. At the same time, their hybrid characteristics raise important questions regarding appropriate regulatory classification and oversight. We commend the Commission for undertaking this timely review and for seeking stakeholder input on these complex issues.

In our view, an effective regulatory approach to prediction markets should be guided by principles of technological neutrality, functional analysis, and proportionality. Regulatory clarity in this area will not only mitigate compliance uncertainty but also foster responsible innovation within the United States and globally. We therefore welcome the opportunity to share our perspectives on how existing regulatory frameworks may be applied or adapted to address the unique features of prediction markets, while preserving their potential societal and economic benefits.

We extend an open invitation to policymakers, regulators and other stakeholders to engage in further dialogue, whether in the form of sharing our general market perspective or providing input on specific questions. Our extensive presence across the Web3 space provides us with unique insights into on-chain infrastructure, digital asset market structure, tokenized ecosystems, and consumer-facing platform designs. We are always keen to share our perspectives and exchange feedback to help the industry grow in a sustainable, compliant manner.

About Animoca Brands

Animoca Brands is a global digital assets leader building and investing in impactful technologies and ecosystems to reimagine future economies. It has received broad industry and market recognition including Fortune Crypto 40, Top 50 Blockchain Game Companies 2025, Financial Times' High Growth Companies Asia-Pacific, and Deloitte Tech Fast. Animoca Brands is recognized for building digital asset platforms such as the Moca Network, Open Campus, Anichess, and The Sandbox, as well as institutional-grade platforms; providing digital asset services to help Web3 companies launch and grow; and investing in frontier Web3 technology, with a portfolio of over 600 companies and digital assets.

We have included in the Appendix our responses to select questions in the Request. We hope that these responses will be helpful in the ongoing efforts to support the responsible growth of prediction markets.

Yours faithfully,
Animoca Brands

April 30th, 2026

APPENDIX

Responses have been provided for select questions only.

1. What factors should the Commission consider in determining whether to provide guidance or amend its regulations regarding how the DCM Core Principles in CEA section 5(d) apply to prediction markets? Are there specific points on which the Commission should provide guidance or rule amendments? Why or why not?

In determining whether to provide guidance or amend its regulations regarding how DCM Core Principles apply to prediction markets, the Commission should consider several key factors that distinguish prediction markets from traditional commodity derivatives markets. These factors relate both to the unique characteristics of event contracts themselves and to the operational and structural differences between prediction markets and conventional futures or options markets.

Differences in Settlement Mechanics

Traditional futures and options contracts generally settle based on objectively observable market prices from established, liquid cash markets or reference prices from widely recognized sources. In contrast, event contracts settle based on the occurrence or non-occurrence of specific events, which may require subjective interpretation, may be subject to dispute, or may lack a single authoritative source for determination. For example, a contract settling on whether a specific merger receives regulatory approval by a certain date depends on regulatory actions that may be ambiguous, delayed, or subject to varying interpretations. This creates unique challenges under Core Principle 2, which requires DCMs to monitor and enforce compliance with contract terms and conditions. The Commission should consider whether existing regulations provide sufficient clarity on what constitutes adequate dispute resolution procedures, how DCMs should designate authoritative settlement sources, what happens when designated sources fail to provide timely or clear determinations, and how to handle situations where events are disputed or unclear.

Distinct Manipulation Risks

In commodity markets, manipulation typically requires influencing broad market prices through trading activity, which becomes increasingly difficult and expensive as markets grow larger and more liquid. Event contracts, however, often refer to events that may be under the control of small numbers of individuals or entities. Additionally, the potential for cross-market manipulation—where participants manipulate the underlying event itself to profit from prediction market positions, or conversely use prediction market positions to influence related securities or commodity markets—creates novel surveillance challenges. Under Core Principle 3, which prohibits listing contracts readily susceptible to manipulation, and Core Principle 4, which requires capacity to prevent manipulation through surveillance, the Commission should consider whether current regulations adequately address these unique risks or whether specific guidance is needed on how DCMs should assess manipulation susceptibility for events with concentrated control.

Information Asymmetry

Unlike commodity markets where information about supply, demand, and price is broadly distributed among many market participants, information about whether specific events will occur may be concentrated among very few individuals who have direct knowledge or control. This raises

questions about how Core Principles relate to market integrity, prevention of manipulation, and fair access apply when some participants may have material non-public information about event outcomes. The Commission should consider whether existing insider trading prohibitions and surveillance requirements adequately address this asymmetry, whether DCMs should be required to implement specific controls to detect and prevent trading by insiders, and how to balance the potential informational value of insider participation against fairness and manipulation concerns.

Margin Trading

Traditional futures markets rely on sophisticated margining systems based on historical price volatility, correlations, and value-at-risk methodologies developed over decades. Event contracts have binary payoff structures and time horizons ranging from hours to years, characteristics that may require significant adaptation of traditional margining frameworks. Under Core Principle 11, which requires rules ensuring financial integrity including appropriate margin requirements, the Commission should consider whether existing margin regulations and accepted practices provide adequate guidance for event contracts, or whether specific guidance is needed on margin calculation methodologies, concentration charges for correlated events, time-to-settlement adjustments, and different standards for retail versus institutional participants.

Retail Participation

The Commission should consider the participant base for prediction markets and how they differ from traditional derivatives markets. While traditional commodity futures markets are dominated by commercial hedgers and institutional speculators, prediction markets may attract significant retail participation, including participants who may not fully understand derivative instruments or the risks of leveraged trading if margin is permitted. Additionally, prediction markets may attract participants with entertainment or gaming motivations rather than risk management or investment objectives. Under Core Principles relating to customer protection, impartial access, and financial integrity, the Commission should consider whether existing regulations adequately address the needs and risks of this participant base, or whether specific guidance on customer disclosure, suitability, risk warnings, or access restrictions is appropriate.

Position Limits

Traditional position limit frameworks are designed to prevent excessive speculation and potential manipulation in commodity markets with established cash market relationships and delivery mechanisms. Event contracts lack these traditional market structures, and determining appropriate position limits requires novel considerations such as how to aggregate positions across related but distinct events, how to scale limits relative to market depth in rapidly growing or contracting markets, and whether limits should vary based on the manipulation susceptibility of specific events. The Commission should consider whether existing position limit regulations provide adequate flexibility and guidance for DCMs to establish appropriate limits, or whether specific amendments or interpretive guidance would better serve market integrity objectives.

Cross-Jurisdictional Considerations

The Commission should consider the international and cross-jurisdictional dimensions of prediction markets. Unlike traditional commodity derivatives which often have established international regulatory frameworks and cross-border cooperation mechanisms, prediction markets operate in a

more fragmented global regulatory environment. Some jurisdictions prohibit or heavily restrict prediction markets, particularly those involving political events or outcomes that may be characterized as gaming. Others have minimal regulations. This creates potential for regulatory arbitrage, offshore migration of activity, and challenges in surveillance and enforcement. The Commission should consider whether its regulatory approach should account for these international dimensions, particularly regarding cross-border access, information sharing with foreign regulators, and the potential for U.S. participants to access unregulated offshore prediction markets.

Dispute Resolution

As a specific point on which guidance would be helpful, the Commission should initially provide principles based guidance regarding dispute resolution procedures for event settlement, manipulation risk assessment frameworks that DCMs should apply on a contract-by-contract basis, surveillance standards tailored to inside information and event manipulation risks, position limit methodologies and aggregation standards, margin calculation approaches if leveraged trading is permitted, blockchain and smart contract operational requirements, participant suitability and disclosure requirements particularly for retail customers, and cross-border coordination mechanisms. If market experience later shows that guidance is insufficient in particular areas, the Commission could then consider targeted rule amendments supported by market practice.

Differences in Settlement Mechanics

Blockchain-based prediction markets also raise distinct operational questions that are not central to traditional derivatives infrastructure. Where event contracts rely on oracles, smart contracts, or other on-chain settlement mechanisms, the Commission should consider whether DCMs have appropriately robust governance around oracle selection, fallback procedures, smart contract audits, safeguards against oracle manipulation, upgrade controls, and incident response. These issues are relevant not because blockchain systems should be regulated differently as a matter of principle, but because technological neutrality requires equivalent safeguards to be translated into forms suitable for on-chain market infrastructure.

4. **Institutional traders (that is, parties that are eligible contract participants) may enter into event contracts on prediction markets registered as SEFs, which are subject to Core Principles in CEA section 5h(f). Are there aspects of prediction markets that the Commission should consider in applying these Core Principles? How is trading on prediction markets by institutional traders the same, or different from, retail trading on prediction markets? How would or does prediction market trading on DCMs and SEFs impact liquidity in both types of exchanges? What factors should the Commission consider in determining whether any public disclosure requirements should apply to prediction market trading on SEFs? For example, would public disclosure help to mitigate, or exacerbate, adverse selection? Are there specific points on which the Commission should provide guidance or adopt rule amendments? If so, why?**

Several aspects of prediction markets require Commission consideration in applying the SEF Core Principles under CEA section 5h(f) to event contracts traded by institutional participants. While institutional trading on SEFs shares certain characteristics with retail trading on DCMs, significant differences in participant sophistication, regulatory framework, and market structure create distinct policy considerations.

Differences Between Institutional and Retail Prediction Market Trading

Institutional traders, as eligible contract participants (ECPs) under CEA section 1a(18), possess substantially greater financial resources, risk management capabilities, and market sophistication than retail participants. This fundamental difference affects appropriate regulatory treatment in several ways. Institutional participants require less prescriptive investor protection regulations, as they are presumed capable of evaluating risks, understanding complex instruments, and negotiating appropriate terms. Mandatory disclosure requirements, suitability determinations, and trading restrictions justified for retail protection may be unnecessary or counterproductive for institutional markets. Institutional participants also typically employ professional risk management systems, dedicated compliance personnel, and sophisticated analytical capabilities, reducing the need for exchange-imposed safeguards. Finally, institutional trading occurs at significantly larger scale, creating different liquidity dynamics, price discovery mechanisms, and market impact considerations than retail markets.

However, institutional trading also presents unique risks. Institutional participants may have greater ability and incentive to manipulate markets due to larger position sizes, access to material non-public information through business relationships, and potential conflicts of interest arising from positions in related markets. Additionally, institutional concentration risk differs from retail concentration, as a few large institutional participants dominating a market may create manipulation susceptibility or liquidity fragility not present in markets with many smaller retail participants.

The Commission should provide guidance because institutional prediction markets are developing rapidly with limited precedent, creating uncertainty about compliance expectations. SEFs need clarity on surveillance requirements, product classification, and acceptable event contract categories to make informed listing decisions. Guidance would allow flexibility for varying SEF business models and technological approaches while establishing minimum standards. However, if experience demonstrates that guidance is insufficient to address institutional prediction market risks, rule amendments might become necessary to establish more prescriptive requirements in areas such as mandatory surveillance capabilities, participant disclosure obligations, or event contract eligibility criteria.

7. **As described above, CEA section 5c(c)(5)(C) provides for the Commission to make a determination that event contracts are ‘‘contrary to the public interest’’ if the event contracts involve any of five listed activities or ‘‘other similar activity determined by the Commission, by rule or regulation, to be contrary to the public interest.’’ In general, what factors should the Commission consider in making a public interest determination under this section? (Public interest factors specific to the five listed activities are discussed in part II.C., below, in connection with those activities.)**

In making public interest determinations under CEA section 5c(c)(5)(C), the Commission should consider several general factors beyond those specific to the five listed activities.

- The Commission should assess whether event contracts serve legitimate economic purposes aligned with the CEA's objectives in section 3(a): managing and assuming price risks, discovering prices, or disseminating pricing information. Contracts enabling genuine hedging of commercial risks or providing valuable information aggregation serve public interests that purely speculative or entertainment-focused contracts may not.

- Manipulation susceptibility should be a core public interest factor. Events under concentrated control, lacking objective verification mechanisms, or creating cross-market manipulation incentives present greater public interest concerns than events determined by broad market forces with transparent, verifiable outcomes. The Commission's ability to effectively surveil and enforce against manipulation varies substantially across event types, affecting public interest calculus.

- Information asymmetry and insider trading potential warrant consideration. Events where material information is concentrated among few parties raise fairness concerns and may undermine market integrity even if not technically violating existing insider trading prohibitions. The balance between potential informational benefits of insider participation (improving price discovery) and fairness concerns to other participants affects public interest determination.

- Participant protection considerations should be central to public interest determinations because event contracts may attract populations with different characteristics than traditional derivatives markets. Certain categories may draw predominantly retail participants who view prediction markets as entertainment rather than financial instruments, lacking understanding of derivative mechanics, leverage risks, or potential for total capital loss. Unlike commodity futures markets dominated by commercial hedgers and professional traders, prediction markets may attract participants with no derivatives experience, limited financial resources, and entertainment-focused motivations. These risks are best addressed through product and design based safeguards calibrated to complexity, leverage and marketing practices, rather than assumptions tied to any particular demographic group. Standard derivatives disclosures may be inadequate when participants approach contracts as entertainment rather than investments – specialized disclosures can usefully explain discontinuous pricing, binary payoff risk, and the possibility of total loss in plain language suited to consumer-facing platforms.

- In assessing public interest under CEA section 5c(c)(5)(C), the Commission should focus not only on whether an event contract reflects existing risks, but whether it changes incentives in ways that make harmful outcomes more likely. Certain narrowly defined contracts, especially those that pay out on discrete acts of violence, criminal conduct, or serious public disorder, can create a moral hazard by giving market participants or associates a direct financial motive to incite or bring about the underlying event. This concern is most acute where a small group can meaningfully influence the outcome at relatively low cost compared with potential trading profits. In such cases, the mere existence of the contract may undermine public safety and trust in institutions, and these products should be treated as presumptively contrary to the public interest even absent evidence of actual manipulation.

10. What role do event contracts play in ‘‘managing and assuming price risks, discovering prices, or disseminating pricing information’’ as contemplated by CEA section 3(a)? How are event contracts used in hedging, which is one aspect of managing price risks? How should the Commission incorporate considerations of hedging, price risk, price discovery, and price dissemination in its public interest determination

Event contracts serve the functions of managing and assuming price risks, discovering prices, and disseminating pricing information in varying degrees depending on contract characteristics. The Commission should incorporate these considerations as central factors in public interest determinations under CEA section 5c(c)(5)(C).

Regarding risk management, event contracts enable hedging when businesses face genuine economic exposures to specific events. For example, weather markets allow agricultural or energy companies to hedge revenue risks from temperature or precipitation variations. And economic indicator contracts allow financial institutions to hedge macroeconomic exposures. These contracts serve legitimate risk transfer functions comparable to traditional commodity derivatives. However, many event contracts lack identifiable commercial hedging demand and serve purely speculative purposes. The Commission should consider whether contracts enable bona fide hedging by commercial entities with actual event exposure, but should also recognize that in practice information aggregation, speculation and hedging may coexist within the same. Public interest analysis should therefore focus not only on participant motivation, which may be mixed, but also on objective feature of contract design, settlement, access and manipulation risk.

Regarding price discovery, prediction markets aggregate dispersed information from participants with varying knowledge and perspectives, potentially producing probability estimates more accurate than individual forecasts or expert predictions. Research demonstrates prediction market accuracy in forecasting election outcomes, product launch success, and economic indicators, suggesting genuine price discovery value. This information benefits commercial decision-making, policy analysis, and public understanding. However, price discovery value depends on informed participation—markets dominated by uninformed speculators or entertainment-motivated traders may produce inaccurate prices reflecting noise rather than information. Additionally, insider trading undermines price discovery legitimacy when prices reflect non-public information unavailable to other participants rather than aggregated public knowledge.

11. CEA section 3(b) lists several purposes of the CEA, including to prevent price manipulation, to protect all market participants from fraudulent or other abusive sales practices, and to promote responsible innovation and fair competition.56 What factors should the Commission consider in its effort to fulfill these purposes with respect to prediction markets? Is there any potential conflict between these purposes, and if so, how should they be balanced?

Preventing manipulation requires recognizing that event contracts present unique risks. Unlike commodity markets where manipulation requires influencing broad market prices, events may be controlled by small groups or individuals. The Commission should consider enhanced surveillance requirements, risk-based conflict of interest screening and targeted trading restrictions for participants who both possess material non-public information and can materially influence the underlying event, and position limits calibrated to manipulation susceptibility of specific events. Cross-market manipulation potential (where participants manipulate underlying events to profit from prediction market positions or vice versa) requires coordination with securities and other market regulators.

Financial integrity considerations support maintaining current full collateralization requirements. If margin is permitted, then substantially higher margin than for traditional derivatives should be required, given binary payoffs, potential for rapid total loss, and limited historical data for risk

modeling. Systemic risk appears limited given prediction markets' small scale, but concentration of positions or operational failures at blockchain-based platforms warrant monitoring.

Protecting participants from fraud and abuse requires clear disclosure that event contracts are speculative instruments with high loss potential, prohibitions on misleading marketing suggesting guaranteed returns or "inside information" advantages, and enforcement against manipulation schemes. Promoting responsible innovation supports allowing diverse event contract experimentation while maintaining core safeguards. Fair competition requires ensuring DCMs compete on execution quality and services rather than on willingness to list high-risk contracts with inadequate protections.

Potential conflicts arise between innovation promotion and manipulation prevention—overly restrictive regulations may stifle beneficial innovation while insufficient oversight enables harmful practices. The Commission should balance these purposes through risk-based approaches allowing low-risk innovation while restricting high-risk activities.

12. How do event contracts compare to, or substitute for, insurance contracts? Should the liquidity and availability of insurance with respect to a particular event be a factor in the Commission's public interest determination?

Event contracts share functional similarities with insurance contracts but differ in critical respects that should inform the Commission's public interest determinations. Both instruments provide payouts contingent on specified events occurring, transfer risk from parties seeking protection to those willing to assume risk, and require event verification and claims processing mechanisms. However, insurance requires the policyholder to have insurable interest while event contracts permit purely speculative participation without underlying exposure. Insurance is designed for risk mitigation and indemnification, while event contracts primarily serve speculative and price discovery functions.

The liquidity and availability of insurance for particular events should be a factor in public interest determinations, but it should not be determinative. Where robust insurance markets covering specific risks exist, event contracts on identical underlying events may serve primarily to enable speculation rather than fill risk management gaps. Conversely, where insurance is unavailable or prohibitively expensive for legitimate commercial risks, event contracts might serve valuable hedging functions justifying approval despite other concerns. However, in our view, the main consideration is whether prediction markets are structured mainly for speculative retail use or genuinely for institutional hedging. Derivative contracts routinely coexist with insurance and the availability of insurance should not be a controlling factor when examining prediction markets.

13. Why, or why not, would it be appropriate for the Commission to propose any changes to its regulations related to its public interest determination?

The Commission should consider providing guidance rather than comprehensive rule amendments related to public interest determinations under CEA section 5c(c)(5)(C). Guidance would allow the Commission to establish interpretive frameworks, provide illustrative examples of contracts that do or do not raise public interest concerns, and clarify analytical factors while preserving flexibility to address novel event contract types as markets evolve. The diversity of event contracts makes prescriptive rules risk being either overly restrictive for low-risk contracts or insufficiently protective for high-risk contracts.

However, targeted rule amendments may be appropriate for specific areas where statutory language requires clarification or where guidance has proven insufficient. For example, defining what constitutes "gaming" under CEA section 5c(c)(5)(C)(i)(V) through regulation might provide greater clarity than guidance alone, given the term's ambiguity and varying state law interpretations. Similarly, establishing procedural requirements for how DCMs must demonstrate contracts are not contrary to public interest might warrant rule amendments to ensure consistent DCM practices.

The Commission should avoid comprehensive rulemaking at this early stage of prediction market development. Markets have grown rapidly since 2021 but remain nascent; premature prescriptive rules risk stifling beneficial innovation before market practices and industry standards emerge organically. A phased approach beginning with guidance, monitoring market development, and proceeding to targeted rule amendments if experience demonstrates guidance inadequacy would better balance innovation and protection objectives while allowing evidence-based regulatory refinement. Any targeted rule amendments should focus on clearly identified risk categories or recurring implementation failures rather than imposing uniform requirements across all event-contract types.

15. CEA section 5c(c)(5)(C) lists five activities, and provides that if an event contract involves any such activity, the Commission may determine that the event contract is contrary to the public interest. What factors should the Commission consider in determining the scope of these five listed activities? What aspects of these activities would be relevant to the Commission's public interest determination?

The Commission should consider several factors in determining the scope of the five activities listed in CEA section 5c(c)(5)(C)—unlawful activity, terrorism, assassination, war, and gaming—and how these activities relate to public interest determinations.

Interpretive Framework

The Commission should interpret these terms consistent with their ordinary meaning while considering relevant legal definitions from other regulatory contexts. Insurance law, criminal law, and state gaming regulations provide useful precedents for understanding congressional intent. The terms should be interpreted to capture the harms Congress sought to prevent, being contracts that could facilitate illegal conduct, trivialize serious threats to public safety, create perverse incentives for harmful actions, or undermine state regulatory authority over gambling, while avoiding overbroad interpretations that would prohibit legitimate risk management or information aggregation contracts.

Relevance to Public Interest

These activities are relevant to public interest determinations because contracts involving them raise distinct concerns beyond typical manipulation or consumer protection issues. Contracts on unlawful activity could facilitate or incentivize illegal conduct. Terrorism and assassination contracts lack legitimate economic purpose and present moral hazard. Gaming-related contracts can in some cases support legitimate hedging but require careful public-interest analysis. War contracts raise distinct considerations; to the extent the Commission permits any war-related contracts, the strongest case is for the contracts tied to objectively measurable commercial consequences rather than contracts directly settling on the occurrence of armed conflict itself. The Commission should

consider whether contracts merely reference these activities (such as economic impacts of terrorism) versus directly settling on their occurrence, whether contracts could influence the likelihood of activities occurring, whether contracts serve legitimate hedging purposes despite involving listed activities, and whether moral, ethical, or policy concerns justify prohibition even absent direct manipulation or consumer harm risks.

The assessment should be event-specific and contextual rather than categorical, recognizing that contracts tangentially involving listed activities may serve legitimate purposes while contracts directly settling on harmful outcomes warrant prohibition.

16. **The first listed activity is an ''activity that is unlawful under any Federal or State law.'' What types of event contracts could potentially involve such activity? What steps should the Commission appropriately take in order to determine which State laws may be involved in a particular event contract? What steps should the Commission appropriately take in order to determine which Federal laws, such as the Exchange Act, may be involved in a particular event contract? If an event contract involves an activity that is unlawful under some State laws, but not others, how should this conflict be resolved? What public interest factors should the Commission consider for event contracts involving unlawful activity?**

Contracts settling on whether criminal acts occur, whether regulatory violations are committed, or whether civil law violations take place could involve unlawful activity. For example, contracts on whether specific companies violate environmental regulations, whether individuals are criminally charged or convicted, or whether securities law violations occur might refer to unlawful activity and indirectly encourage the commission of such unlawful activity to achieve a financial windfall. Moreover, prospective bad actors could use event contracts to mitigate against any potential fines or monetary penalties levied against them in the event of a conviction or enforcement action, which would frustrate the purpose of such fines or monetary penalties.

The Commission should coordinate with relevant federal agencies to determine which federal laws may be implicated by specific event contracts. For securities-related events, consultation with the SEC regarding potential violations of the Exchange Act or Securities Act is appropriate. For contracts involving healthcare, pharmaceutical approvals, or medical events, FDA and HHS coordination may be necessary. DOJ consultation regarding criminal law implications and Treasury coordination for sanctions or anti-money laundering issues may be relevant for certain contracts.

Regarding state laws, the Commission faces complexity given fifty varying jurisdictions. The Commission should establish a framework requiring DCMs to certify that they have analyzed applicable state laws on a documented, risk-based basis, with particular focus on federal law and the principal jurisdiction or jurisdictions most closely connected to the underlying event. Alternatively, the Commission might focus on whether activity is unlawful in the state where it would occur rather than all states, though this creates complexity for events without clear geographic nexus.

When an event involves activity unlawful under some state laws but not others, the Commission should consider whether the conflict reflects genuine policy disagreement (such as cannabis legalization varying by state) or technical statutory differences. Public interest factors should include whether permitting contracts would undermine state regulatory authority, whether contracts could facilitate violation of state laws, the proportion of states prohibiting versus permitting the activity, and whether federal policy supports state experimentation. Contracts involving activity

unlawful under federal law should generally be prohibited regardless of state law variations, while state law conflicts require more nuanced analysis balancing federalism, market integrity, and the CEA's national public interest mandate.

17. **The second and third listed activities are terrorism and assassination. Are the meanings of these terms self-evident, or are there any ambiguities that the Commission should consider? Are specific definitions in other contexts, such as insurance, helpful? Would event contracts involving cyberterrorism be covered by the terrorism provision, and if so, what factors distinguish cyberterrorism from other cyber attacks? What public interest factors should the Commission consider for event contracts involving terrorism or assassination?**

    Although terrorism and assassination are generally understandable terms, the Commission may still benefit from clarifying that interpretations should focus on the harms Congress sought to prevent, including moral hazard, public-safety risk, and the absence of legitimate commercial utility.

    We also consider that event contracts involving cyberterrorism would be covered by the terrorism provision. Cyberterrorism is distinguished from other cyber attacks by three key factors: (i) political or ideological motivation to coerce governments or intimidate populations rather than financial gain or social activism; (ii) intent to cause widespread fear and terror by targeting critical infrastructure with potential for real-world physical harm or violence; and (iii) magnitude of impact sufficient to inspire fear comparable to conventional terrorist acts. These three factors distinguish cyberterrorism from cybercrime (which is financially motivated), hacktivism (which is civil disobedience without violence), and cyber warfare (which is state-sponsored military operations).

18. **The fourth activity is war. Does this activity encompass all military actions, or are there military actions that do not constitute war? What factors distinguish war from, for example, civil unrest? What factors distinguish war from political actions, or other actions as part of international relations? Are specific definitions in other contexts such as insurance, helpful? What public interest factors should the Commission consider for event contracts involving war?**

    War-related contracts should not be treated identically to terrorism or assassination in every circumstance, because armed conflict can create genuine commercial exposure across multiple industries. Even so, the case for permitting such contracts is strongest where they are structured around objectively measurable commercial consequences rather than direct bets on the onset, conduct, or human toll of armed conflict. Unlike terrorism and assassination, and notwithstanding that certain gaming contracts may serve limited commercial hedging purposes as discussed in our responses to Question 19, war has profound and widespread economic consequences creating urgent hedging demand across multiple industries.

    War fundamentally disrupts global commerce in ways requiring derivative instruments for risk management. Energy companies face supply disruptions and price volatility as conflicts affect oil and gas production regions. Shipping companies encounter route closures, insurance premium spikes exceeding 1000% in conflict zones, and cargo loss risks requiring hedging beyond traditional marine insurance. Financial institutions require hedging against sovereign debt defaults, currency collapses, and market disruptions triggered by armed conflict. These are not speculative concerns but material commercial risks affecting trillions in global economic activity.

Current hedging instruments are inadequate. Political risk insurance is prohibitively expensive, limited in coverage, and excludes many war-related losses. For example, insurers may determine to halt insurance coverage, which can effectively cause global commerce to come to a halt. Commodity derivatives hedge price movements but not war-specific disruptions. Securities hedging creates basis risk and fails to isolate geopolitical factors. Contracts referencing war-related commercial impacts may, if carefully designed, help businesses hedge specific conflict scenarios affecting their operations. This directly serves the CEA's core purpose under section 3(a) of "managing and assuming price risks."

The Commission should interpret "war" to include formally declared wars, sustained armed conflicts between states, and civil wars meeting intensity thresholds defined by international humanitarian law, while excluding limited military strikes, counterterrorism operations, or border skirmishes. This approach, consistent with war risk definitions in the insurance industry, provides clarity while capturing events with material commercial impact. Contracts should reference war's commercial consequences (e.g., shipping rates, commodity supply, insurance costs) rather than merely war occurrence, ensuring hedging rather than speculation focus (e.g., casualty counts, territorial gain). If the Commission permits any war-related contracts, it should prioritize institutional or other commercially grounded use cases and carefully weigh moral hazard, manipulation, and public perception concerns.

19. The fifth activity is gaming. What factors should the Commission consider in determining the scope and public interest implications of this activity?

In determining "gaming" scope under CEA section 5c(c)(5)(C)(i)(V), the Commission should consider factors distinguishing legitimate derivatives from entertainment wagering. State gambling statutes provide definitional guidance but cannot be mechanically applied since most derivatives involve chance and speculation. The critical distinction lies in purpose: gaming serves entertainment while derivatives serve risk transfer, price discovery, and information aggregation.

The Commission should assess commercial hedging demand. Professional sports generate substantial commercial ecosystems such as broadcasters hedging viewership-dependent revenue, venues managing event-dependent costs, licensed operators hedging liability exposure. Contracts enabling such hedging differ from retail entertainment betting. Conversely, contracts on awards or reality shows lacking commercial infrastructure function primarily as wagering.

Additional factors include manipulation risks through match-fixing and insider betting requiring enhanced surveillance, state regulatory authority implications where federal approval could undermine state gambling frameworks and consumer protections, participant protection concerns as gaming contracts may attract entertainment-motivated participants lacking derivatives sophistication and potentially justifying calibrated safeguards such as clearer disclosures, leverage limits where relevant, marketing constraints, cooling off mechanism, or other controls appropriate to the relevant structure, and category differentiation recognizing that major professional sports, esports, entertainment competitions, and casino-style contracts warrant different treatment based on commercial significance and manipulation susceptibility.

(a) What sources should inform the Commission's determination of the scope of the term ''gaming''? For example, is gaming synonymous with, or more or less extensive than, the scope of activities covered by State and Federal gambling statutes? Are there characteristics—such as an entertainment purpose, or an element of chance—that distinguish gaming from other activities?

The Commission should interpret "gaming" consistent with state and federal gambling statutes while recognizing that not all event contracts constitute gaming merely because they involve chance or entertainment elements. State gambling laws generally define gaming as risking something of value on an outcome determined by chance for the opportunity to win something of value, with predominance of chance over skill being the critical factor. However, derivatives regulation appropriately permits speculation—risk-taking for profit rather than hedging—without characterizing such activity as gambling. The Commission should consider gaming to encompass event contracts where: (i) the primary participant motivation is entertainment rather than investment or hedging; (ii) the underlying event serves no commercial hedging purpose; (iii) the contract structure emphasizes recreational participation over price discovery; and (iv) the event closely resembles activities subject to state gaming regulation, such as casino games, sports betting, or lottery-style outcomes. Gaming should not automatically include all speculative trading or contracts involving chance elements, as this would encompass most derivatives. The distinction lies in whether contracts serve capital markets functions (e.g., risk transfer, price discovery, information aggregation) versus purely entertainment or wagering purposes typically addressed through state gaming frameworks.

(b) In this regard, how should the Commission distinguish between various types of contests? For example, should a sports competition be treated differently than an award competition, and if so, what factors support this distinction? What other types of contests should or should not be considered to be gaming?

The Commission should distinguish contests based on several factors. Sports competitions where outcomes depend primarily on athletic performance should be treated differently than award competitions involving subjective judging, as the latter presents clear inside information and match-fixing risks while the former involves dispersed judgment less susceptible to individual manipulation. However, both may constitute gaming if contracts serve entertainment rather than hedging purposes. Professional sports leagues generate substantial economic activity with legitimate hedging demand: broadcasters, advertisers, venue operators, and sports betting operators face commercial exposures to game outcomes, championships, and player performance. Event contracts enabling these businesses to hedge such exposures serve legitimate purposes distinct from retail entertainment betting. Conversely, contracts on awards, reality show outcomes, or amateur competitions lack comparable commercial hedging demand and function primarily as entertainment wagering. Contests involving skill predominance may warrant different treatment than pure chance contests, though state gambling law precedents suggest skill must substantially predominate over chance to avoid gaming characterization. The Commission should also distinguish between contracts on contest outcomes versus contracts on commercial impacts of contests, with the latter serving more clearly commercial purposes.

(c) What aspects of event contracts involving gaming should the Commission consider in a public interest determination? For these event contracts, are there any challenges to the deterrence of manipulation and protection from abusive sales practices contemplated by CEA section 3(b)? If so, how could these challenges be mitigated? How are the responsible innovation and fair competition goals in CEA section 3(b) served by event contracts involving gaming?

Event contracts involving gaming raise several public interest concerns. First, manipulation and abuse deterrence challenges arise because gaming-related events may be susceptible to match-fixing, insider betting by participants with outcome knowledge, and coordination schemes

undermining competitive integrity. Sports history demonstrates persistent match-fixing concerns, and prediction markets could exacerbate these risks by providing additional monetary incentives and liquidity for corrupt actors. Second, state regulatory authority considerations are paramount. States extensively regulate gambling through licensing, taxation, responsible gaming requirements, and geographic restrictions. Permitting gaming-related event contracts on federally-regulated DCMs could undermine state frameworks, create regulatory arbitrage opportunities, and circumvent protections such as self-exclusion programs, betting limits, and advertising restrictions that states impose on gambling operators. Third, participant protection concerns include that gaming contracts may attract participants viewing them as entertainment rather than investment instruments, potentially lacking sophistication regarding derivative risks, leverage implications, and total loss potential. These participants may exhibit problem gambling behaviors requiring interventions not traditionally provided in derivatives markets. However, mitigation measures could address these concerns. Enhanced surveillance for manipulation and insider betting, targeted consumer-protection measures adapted to the relevant trading environment, restrictions on marketing emphasizing entertainment rather than investment characteristics, and coordination with state gaming regulators could enable gaming contracts while protecting public interests. Whether such measures adequately mitigate concerns or whether categorical prohibition better serves public interest depends on the specific gaming category and implementation approach.

(d) How should the Commission factor into its public interest determination the characteristics of market participants that trade event contracts involving gaming? For example, do these market participants tend to be younger than those trading other financial instruments, and if so, how should this inform the Commission's consideration?

Market participant demographics should inform the Commission's public interest determination for gaming contracts. Evidence suggesting gaming contracts attract younger participants than traditional derivatives markets is relevant because younger participants may have less investment experience, lower risk tolerance awareness, greater susceptibility to social media-driven trading behaviors, and different expectations regarding platform responsibilities and consumer protections. Many younger participants have experience with sports betting, daily fantasy sports, or online gaming but not with derivatives or leveraged instruments, creating knowledge gaps regarding futures contract mechanics, margin requirements, and mark-to-market losses. This demographic shift warrants consideration of enhanced disclosure requirements specifically addressing derivatives risks in language accessible to participants without traditional investment backgrounds, suitability determinations assessing participant understanding of leveraged instruments before permitting margin trading, education requirements ensuring participants complete training modules on derivative risks, and age restrictions potentially requiring participants be 21 or older consistent with many state gambling age requirements rather than the standard 18-year minimum for securities accounts. The Commission should also consider whether participant demographics vary across gaming contract categories—professional sports may attract different participants than esports or entertainment awards—and whether differentiated regulatory approaches are appropriate. However, demographic considerations should not serve as pretexts for paternalism; younger participants capable of understanding derivative risks should not be categorically excluded from markets based on age alone.

(e) What aspects of responsible gaming standards, such as self-exclusion programs, monetary or time limits, or advertising limits, disclaimers, or warnings, should the Commission consider in its public interest determination?

The Commission should carefully consider responsible gaming standards when evaluating gaming contracts under public interest criteria. Responsible gaming frameworks in state-regulated gambling include mandatory self-exclusion programs allowing individuals to ban themselves from gambling platforms for defined periods, deposit limits enabling participants to set maximum daily, weekly, or monthly funding thresholds, loss limits capping total losses over specified periods, time limits or session duration restrictions preventing extended continuous play, mandatory breaks or cooling-off periods after sustained activity, reality checks reminding participants of time and money spent, advertising and marketing restrictions prohibiting appeals to minors or vulnerable populations and requiring responsible gambling messaging, and affordability checks requiring operators to assess whether high-volume participants can afford their activity levels. These protections reflect decades of research on problem gambling prevention and harm reduction. Event contract markets currently lack analogous protections, operating under derivatives regulations emphasizing disclosure and access rather than behavioral interventions. The Commission should consider whether gaming contracts should be subject to responsible gaming standards adapted for derivatives contexts, whether DCMs listing gaming contracts should be required to implement such measures as condition of approval, or whether absence of such protections supports public interest determinations that gaming contracts are contrary to public interest. The challenge lies in adapting gambling harm reduction measures to derivatives markets without creating inappropriate precedents for non-gaming derivatives regulation or imposing requirements exceeding CFTC statutory authority.

(f) How do the various types of event contract that involve gaming differ from each other? How are these differences relevant to the Commission's public interest determination?

Gaming contracts differ substantially across categories, requiring nuanced public interest analysis rather than categorical treatment. Professional major league sports involve massive commercial ecosystems with legitimate hedging demand from broadcasters, advertisers, venues, and licensed operators, distinguishing them from amateur or recreational sports lacking such commercial infrastructure. Championship outcomes affect significant economic interests justifying derivative contracts, while regular season individual game outcomes serve primarily entertainment purposes. Esports present unique characteristics as digital competitions with younger participant demographics, global accessibility, and less developed competitive integrity frameworks than traditional sports, but also growing commercial sponsorship and broadcasting value. Award shows and entertainment competitions lack the real-time athletic competition element and serve primarily entertainment purposes with minimal commercial hedging demand beyond entertainment industry participants. Political betting, though often grouped with gaming, arguably serves information aggregation and price discovery functions distinct from pure entertainment, though state laws frequently prohibit political wagering. Casino-style gaming or lottery-based contracts would clearly constitute gaming without legitimate derivatives purposes and should be prohibited. These differences are relevant because contracts serving genuine commercial hedging needs or producing valuable price discovery may warrant approval despite gaming elements, while contracts serving purely entertainment purposes without commercial utility present stronger cases for public interest prohibition. The Commission should establish framework criteria including hedging demand assessment, commercial ecosystem analysis, manipulation susceptibility evaluation, and participant protection considerations, applying these criteria category-by-category rather than treating all gaming contracts uniformly.

29. The price on a prediction market could be viewed as an indication of how likely the underlying event is to occur. The price may be a more reliable indicator of probability if the

people trading on the prediction market have some insight into how likely the underlying event is to occur. On the other hand, trading by these informed participants may lead to manipulation, unfairness, and the misuse of inside information. Is there some public interest utility if people with an asymmetric information advantage on a particular event contract are able to trade on prediction markets? Does the public interest utility depend on the type of event in question? What factors should the Commission consider in evaluating and balancing the public interest in this scenario?

Prediction markets raise insider-information and fairness concerns that in some contexts resemble those addressed by securities law, but the Commission should distinguish carefully between participants who merely possess superior information and participants who can materially influence the underlying event. The strongest case for restriction is where material non-public information is coupled with control, official responsibility, or another form of direct influence over the outcome.

Securities Market Principles Apply

Securities regulation prohibits insider trading based on material non-public information because it undermines market fairness, erodes investor confidence, and constitutes fraud on market participants who trade without access to privileged information. These principles apply equally to prediction markets. When corporate executives trade event contracts on merger completions they are negotiating, athletes trade on their own performance outcomes, or government officials trade on regulatory decisions they control, they exploit information advantages analogous to securities insider trading. The fact that prediction markets currently lack explicit insider trading prohibitions does not mean such trading serves public interest. Rather, it highlights a regulatory gap requiring Commission's attention.

Limited Price Discovery Value

Proponents may argue that informed trading improves price accuracy by incorporating superior information. In some contexts, informed participation can improve price accuracy by incorporating knowledge that would otherwise remain dispersed or latent. The Commission should therefore focus less on eliminating all informational asymmetry, which is unrealistic in most markets, and more on restricting participation where informational advantage is paired with the ability to affect the event, misuse official position, or undermine confidence in market integrity. Market confidence suffers when ordinary participants perceive markets as vehicles for insider enrichment rather than legitimate information aggregation tools, reducing participation and liquidity. In addition, insiders may decide to acquire substantial positions in a market close to or immediately prior to resolution, which deprives the market of the purported benefits of price discovery.

Event-Specific Considerations and Moral Hazard

Public interest analysis depends partly on event type. For events where insiders possess predictive information but cannot influence outcomes, informed trading might theoretically enhance accuracy. However, when insiders control underlying events, informed trading creates severe moral hazard by incentivizing event manipulation for trading profit. The Commission should establish frameworks prohibiting or restricting insider participation comparable to securities regulation, recognizing that market integrity and fairness considerations outweigh marginal price discovery benefits from informed trading where control, official duties, or other direct influence create acute conflicts of interest.

30. Some events underlying event contracts are under the control of a single individual or small group of individuals. What role should this aspect of event contracts play in the Commission's consideration of how prediction markets should be regulated? Do the considerations change depending on the type of event in question? Are there particular challenges related to cross-market manipulation—for example, where an individual or small group of individuals seeks to move the prediction market to influence another market, or vice versa? Are prediction markets more likely than other DCMs or SEFs to be susceptible to manipulation? Why or why not?

Events controlled by single individuals or small groups should be a critical factor in the Commission's regulatory approach to prediction markets, as such control fundamentally distinguishes event contracts from traditional commodity derivatives and creates heightened manipulation, fairness, and moral hazard concerns.

Core Regulatory Consideration

Core Principle 3 requires DCMs to list only contracts "not readily susceptible to manipulation." Events under concentrated control are inherently more susceptible to manipulation than events determined by broad market forces, natural phenomena, or aggregated decisions of many independent actors. A corporate executive deciding whether to complete a merger, an athlete determining performance effort, or a government official exercising regulatory discretion can directly influence event outcomes in ways impossible for commodity market participants. The Commission should require DCMs to assess and document the degree of control over each event, apply heightened scrutiny where outcomes are controlled by a small number of actors, and implement enhanced safeguards including restrictive position limits and mandatory insider exclusions for contracts involving concentrated control.

Event Type Variations

Regulatory considerations vary across event categories. Corporate actions (e.g., mergers, earnings guidance, product launches) involve executive control but also fiduciary duties and reputational constraints limiting manipulation incentives. Individual athletic performance involves direct control with potentially weaker constraints against manipulation for trading profit. Political events may involve candidate or official control over certain decisions but external factors limiting the ability to manipulate. Economic indicators reflect aggregated activity of millions of actors, presenting minimal control concentration. The Commission should establish risk-based frameworks requiring more stringent safeguards as control concentration increases.

Cross-Market Manipulation

Events under concentrated control create heightened cross-market manipulation risks where individuals manipulate underlying events to profit from prediction market positions or manipulate prediction markets to influence related securities or commodity markets. Enhanced surveillance coordinating across markets, information sharing with securities regulators, and monitoring of participants' positions in related markets are necessary. For certain categories of event contracts (e.g., policy decisions, regulated approvals), prediction markets are more exposed, manipulation than traditional DCMs because the manipulation target is the underlying event rather than market prices, surveillance focuses on trading patterns rather than real-world actions, and existing

regulatory frameworks may not cover event manipulation occurring outside traditional market contexts.

31. **CEA section 6(c)(1) provides that "[i]t shall be unlawful for any person, directly or indirectly, to use or employ, or attempt to use or employ, in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity, any manipulative or deceptive device or contrivance, in contravention of such rules and regulations as the Commission shall promulgate by [July 21, 2011], provided no rule or regulation promulgated by the Commission shall require any person to disclose to another person nonpublic information that may be material to the market price, rate, or level of the commodity transaction, except as necessary to make any statement made to the other person in or in connection with the transaction not misleading in any material respect." What aspects of prediction markets are relevant to the application of this statute? Are prediction markets more or less likely than other derivative markets to be susceptible to "any manipulative or deceptive device or contrivance"? How should the potential for application of this statute inform the Commission's regulation of prediction markets?**

Application to Prediction Markets

Prediction markets are more susceptible to manipulative and deceptive devices than traditional commodity markets for several reasons. First, the concentrated control over many events underlying event contracts means manipulation can occur through actions affecting the event itself rather than merely through trading activity. An athlete reducing performance effort to profit from event contracts, a corporate executive delaying a merger to benefit from contract positions, or a government official timing regulatory announcements to exploit prediction market positions could constitute manipulative devices under section 6(c)(1). Second, the information asymmetry inherent in many event contracts creates opportunities for deceptive conduct through selective disclosure, misleading statements about event likelihood, or trading that implies false information to other market participants.

Informing Regulatory Approach

This statutory framework should inform the Commission's prediction market regulation in several ways. First, the Commission should focus enforcement on manipulative conduct affecting underlying events rather than solely on trading-based manipulation, developing surveillance capabilities to detect event manipulation through coordination with other regulators and monitoring of real-world actions by market participants. Second, the Commission should distinguish between permissible trading on superior analytical ability versus impermissible manipulative or deceptive devices, recognizing that the non-disclosure proviso protects information advantages but not affirmative manipulation or deception. Third, the Commission should consider whether certain categories of insider participation should be restricted through DCM rules under Core Principles rather than through disclosure requirements precluded by the statute. For example, DCMs may in appropriate cases impose role-based eligibility restrictions, conflict-of-interest screens, or position limits tied to categories of participants or functions, without requiring disclosure of the substance of any non-public information. Guidance clarifying this distinction would help align market-integrity objectives with the statutory proviso.

32. CEA section 4c(a)(3) provides that "[i]t shall be unlawful for any employee or agent of any department or agency of the Federal Government or any Member of Congress or employee of Congress . . . or any judicial officer or judicial employee . . . who, by virtue of the employment or position of the Member, officer, employee or agent, acquires information that may affect or tend to affect the price of any commodity in interstate commerce, or for future delivery, or any swap, and which information has not been disseminated [or disclosed] . . . in a manner which makes it generally available to the trading public, . . . to use the information in his personal capacity and for personal gain to enter into, or offer to enter into [a futures contract, option on a futures contract, commodity option, or swap]." 62 Similarly, CEA section 4c(a)(4) provides that it is unlawful for any such Federal Government employee or official to impart such information in his personal capacity and for personal gain with intent to assist another person in entering into a futures contract, option on a futures contract, commodity option, or swap, and it is unlawful for the other person who receives such information from any such Federal Government employee or official to knowingly use the information in such transactions.63 How are prediction markets likely to be affected by nonpublic information that is available to Federal Government employees or officials? How should the potential for application of this statute inform the Commission's regulation of prediction markets?

Heightened Applicability to Prediction Markets

For certain categories of event contracts, prediction markets are more affected by nonpublic government information than traditional commodity markets. Event contracts frequently reference outcomes directly within government control—regulatory approvals (e.g., FDA drug approvals, FCC license grants, antitrust merger clearances), legislative actions (e.g., bill passage, appropriations decisions), executive decisions (e.g., presidential pardons, military deployments, treaty negotiations), economic data releases (e.g., employment reports, GDP figures, inflation statistics), and judicial rulings (e.g., Supreme Court decisions, major litigation outcomes). Government employees, officials, and Members of Congress possess material non-public information about these events through their official duties, creating systematic information advantages in prediction markets that rarely exist in traditional commodity markets where government information affects prices only indirectly through supply-demand fundamentals.

Enforcement Challenges

The potential for section 4c(a)(3) violations in prediction markets creates several enforcement challenges. First, identifying covered government personnel trading on prediction markets requires enhanced surveillance capabilities, potentially including coordination with government ethics offices, monitoring of trading accounts for patterns consistent with official positions, and cross-referencing prediction market participants against government employee databases. Second, establishing that information was acquired "by virtue of employment or position" and that it "may affect" event contract prices requires investigation of what information the employee possessed and when they acquired it relative to trading activity. Third, proving intent to use information "for personal gain" requires demonstrating the connection between privileged knowledge and trading decisions.

Informing Commission Regulation

This statutory framework should inform prediction market regulation by requiring DCMs to implement enhanced know-your-customer procedures identifying government employees and

officials among participants, establishing surveillance systems flagging trading by government-affiliated accounts in contracts related to their agencies or responsibilities, coordinating with government ethics offices and inspectors general to detect and investigate potential violations, and potentially restricting certain government employees from trading event contracts within their areas of official responsibility. The Commission should provide guidance clarifying section 4c(a)(3)'s application to prediction markets, establishing expectations for DCM compliance programs, and delineating enforcement priorities given the heightened applicability to event contracts compared to traditional commodity derivatives.